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FM AMCONSUL KARACHI
TO RUEHC/SECSTATE WASHDC 0885
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RUCPDOC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEAIIA/CIA WASHDC
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL
RHMFIUU/CDR USCENTCOM MACDILL AFB FL
RUEKJCS/SECDEF WASHINGTON DC
RUEHLH/AMCONSUL LAHORE 2634
RUEHPW/AMCONSUL PESHAWAR 4517

UNCLAS SECTION 01 OF 02 KARACHI 000024

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TAGS: EFIN ECON PK
SUBJECT: KARACHI - STOCK MARKET CONTINUES DOWNWARD TREND

REF: A: 08 Islamabad 3888
B: 08 Karachi 501
C: 08 Karachi 636
D: 08 Karachi 512
E: 08 Karachi 441

¶11. (SBU) Summary: Driven by foreign investor portfolio divestitures, a need for funds to meet margin calls, and decreased institutional investing, the Karachi Stock Exchange (KSE) - 100 continued its downward trend during the week of January 19 - 23, losing 9.21 percent to close at 4,929.54. New rules have attempted to increase transparency in listed member transactions and facilitate corporate repurchases of stock. However, political and economic uncertainty, an unstable rupee, and Pakistan's suspension from the Morgan Stanley Emerging Markets Composite Index may hamper a market rebound for some time. End summary

Karachi Stock Market Continues Downward Trend

¶12. (U) The Karachi Stock Exchange (KSE) - 100 index closed on January 23 at 4,929.54 on a volume of around 92.2 million shares, after opening the week at 5,429.72 (a 9.21 percent decline). The index has moved sharply downward, dropping 46.31 percent, since the KSE removed minimum price floors on December 15, 2008, when the KSE - 100 stood at 9,181.49. (Note: The KSE - 100 Index comprises the top company from each of the 34 sectors on the KSE, in terms of market capitalization. An additional 66 companies are selected for the index based on market capitalization ranking. End note.)

¶13. (SBU) KSE Managing Director Adnan Afzidi told Post on January 23 that the current week's drop was the result of a sell-off by foreign portfolio investors, a need for funds to cover margin calls, and reduced institutional activity, particularly by the National Investment Trust (NIT) State Enterprise Fund. Market capitalization is currently around USD 20 billion, Afzidi said. According to him, many shares are now undervalued, attracting buyers.

Regulatory Attempts to Improve the Markets

¶14. (SBU) KSE has attempted to inject transparency into the market with implementation of amended listing regulations on January 16. The new rules cover transfer pricing and corporate governance. Among the changes are requirements that transfer pricing be set objectively and that listed corporations maintain a detailed record of such transactions.

¶15. (SBU) KSE officials and brokers have also lauded the January 10 Securities and Exchange Commission of Pakistan (SECP) amendment to section 95A of the Companies Ordinance (1984), that will allow listed companies to buy back and hold shares as treasury

stock for resale at a later date. Previously, companies had to cancel their own shares once they repurchased them.

Political and Economic Uncertainty, Rupee Depreciation Factors in Market Instability

16. (SBU) Arif Habib, Managing Director of Arif Habib Securities Limited, opined that market conditions have been adversely affected by uncertain political and economic conditions in the country as well as tensions with India in the wake of the November 2008 Mumbai terrorist attack. Habib also pointed out that an unstable and depreciating rupee has sidelined many foreign investors.

Comment

17. (SBU) Given the dismal world economic outlook and Pakistan's economic and political problems, the KSE may not substantially rebound for some time. Pakistan's suspension from the Morgan Stanley Composite Index for Emerging Markets appears to have discouraged foreign institutional investors. Market officials and brokers expected a significant drop in market values after removal of the floor placed on August 28 when the market hit a 33 month low (ref B), but the size and duration of the decline have surpassed their expectations (refs C, D). Despite the rapid decline, Pakistan's stock exchanges fortunately have not seen another round of violence similar to the July 17 riots (ref E). Foreign and institutional investors have driven the drop in market values and, even given the possibility of bargain share prices, may not return to Pakistan's markets until the economic and political situation in

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the country improves.

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